REMARKS

OF

JOHN JAY KNOX,

COMPTROLLER OF THE CURRENCY,

BEFORE

THE COMMITTEE ON BANKING AND CURRENCY,

HOUSE OF REPRESENTATIVES,

ON THE

SUBSTITUTE FOR A BILL TO RETIRE THE CIRCULATING-NOTES OF THE NATIONAL BANKS, AND FOR OTHER PURPOSES.

PRINTED BY REQUEST OF THE COMMITTEE.

FEBRUARY 19, 1878.

WASHINGTON:
GOVERNMENT PRINTING OFFICE.
1878.

REMARKS OF MR. KNOX.

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Tuesday Morning, February 19, 1878.

Mr. BUCKNER. The Committee is now ready to listen to the Comptroller of the Currency relative to the bill which proposes to retire the circulating-notes of the national banks.

Mr. KNOX. In accordance with a resolution of the Committee on Banking and Currency, and the request contained in your letter of the 15th instant, I now appear before the Committee to present my views on "the general merits and practical workings of a substitute for a bill to retire the circulating-notes of the national banks, and for other purposes."*

Section 1 of the pending bill provides for an issue of Treasury notes equal in amount to the circulation of the national banks, which shall be used in the redemption and retirement of such circulation.

The form of the notes is: "The United States of America are indebted to the bearer in the sum of —— dollars;" and such notes are to be issued of the denominations and in the general similitude of the United States notes commonly known as legal-tenders. They are not to be a full legal-tender, but are to be "receivable in payment of all taxes, customs, excises, debts and demands of every kind due to the United States, and of all claims and demands against the United States, except for obligations made payable in coin or lawful money by existing laws; and shall be received by the Secretary of the Treasury at par for the four per centum bonds of the United States authorized to be issued by the act entitled 'An act to authorize the refunding of the national debt,' approved July 14, 1870."

In view of the decisions of the Supreme Court of the United States in reference to the issue of legal-tender notes by the Government as a war measure, it may be considered exceedingly doubtful whether the issue, in time of peace, of such notes as are contemplated by the bill is within the constitutional power of Congress.

Section 5136 of the Revised Statutes of the United States gives to each national bank the power "to have succession for the period of twenty years from its organization, unless it is sooner dissolved according to the provisions of its articles of association, or by the act of its

*For bill, see Appendix.

shareholders owning two-thirds of its stock, or unless its franchise becomes forfeited by some violation of law." Under this clause the national banks now in operation have acquired vested rights, among which are those of existence and the right to demand and receive circulating-notes on a deposit of United States bonds. If Congress should provide, by the passage of the pending bill, for the withdrawal of such rights, it is not improbable that the courts would be called upon to decide if such legislation is not unconstitutional and void.

Many other objections may be urged against the pending bill; but as I believe that the effect of its passage will be to abolish the national-banking system, to be followed by the repeal of section 3412 of the Revised Statutes, which imposes a "tax of ten per centum on the amount of notes of any person, or of any State bank or State-banking association, used for circulation and paid out by them," and the re-establishment of State banks, I shall confine my remarks, during the thirty minutes allowed me by your letter of invitation, to the advantages of the present system in comparison with that previously existing, and to the amount of profit derived by the national banks from the issue of circulating-notes.

PREVIOUS BANKING SYSTEMS.

Previous to the organization of the national-banking system, in 1863, the paper currency of the country was issued by banks organized under authority of the several State legislatures. New York had a free-banking system similar to that of the present national banks. In nearly all the other States banks were chartered by special act of the legislature. Many of these institutions had but a nominal capital, consisting chiefly of notes given by the stockholders for the amount of their shares. In most of the States the shareholders of such banks were not made personally liable; no security was required for circulation; no provision was made for the redemption of notes at any commercial centre, and such banks were frequently organized by non-resident shareholders. In many of the States no returns of the banks were made to State authorities, and it was impossible to obtain even approximate statistics of the resources and liabilities of the banks.

There were many organizations which were merely banks of circulation—associations without capital, located at remote points and owned by non-residents—and which were established, not for the purpose of doing a banking business, but in order to convert State bonds into currency and obtain the interest on the bonds. During the administration of General Jackson the losses to the people and to the

Government from the failures of banks and from an unsecured currency were frequent, and an attempt was made to influence State legislatures to prohibit the issue of small notes, with the hope of introducing specie into more general circulation and protecting the laboring classes from frequent losses. Government funds were not allowed to be deposited in banks which issued circulating-notes of a denomination less than ten dollars. Many measures of reform were proposed, yet but little was accomplished, for the reason that success depended upon the co-operative action of the legislatures of so many different States.

Mr. Gallatin, as early as 1831, proposed to tax out of existence State banks, and Mr. Woodbury, in 1836, urged upon the State legislatures the policy of requiring security for circulation, frequent examinations, and many restrictions; and it was proposed by different writers that the States should require the circulation to be based upon Government bonds. A national-banking system similar to the one now in operation was suggested, but was found impracticable for the reason that the public debt was not sufficiently large to constitute a basis for circulation, and the influence of the State banks already organized was sufficiently powerful to obtain a renewal of their charters whenever they expired.

THE ISSUE OF UNITED STATES NOTES DISAPPROVED BY HAMILTON, DALLAS, GALLATIN AND CHASE.

The proposition for the issue of circulating-notes by the Government was early discussed, but was not favored.

Alexander Hamilton, Secretary of the Treasury, in his report of December 13, 1790, gives at length his reasons for the necessity of the organization of a Bank of the United States, and disapproves of the proposition to issue United States notes. He says:

"The emitting of paper money by the authority of Government is wisely prohibited to the individual States by the National Constitution, and the spirit of that prohibition ought not to be disregarded by the Government of the United States. Though paper emissions, under a general authority, might have some advantages not applicable, and be free from some disadvantages which are applicable to the like emissions by the States separately, yet they are of a nature so liable to abuse, and, it may even be affirmed, *so certain of being abused, that the wisdom of the Government will be shown in never trusting itself with the use of so seducing and dangerous an expedient.*

"In times of tranquillity it might have no ill consequence; it might even, perhaps, be managed in a way to be productive of good; but, in great and trying emergencies, there is almost a moral certainty of its becoming mischievous. The stamping of paper is an operation so much easier than the laying of taxes, that a government in the practice of

paper emissions would rarely fail, in any such emergency, to indulge itself too far in the employment of that resource. to avoid as much as possible one less suspicious to present popularity. If it should not even be carried so far as to be rendered an absolute bubble, it would at least be likely to be extended to a degree which would occasion an inflated and artificial state of things incompatible with the regular and prosperous course of the political economy.

"Among other material differences between a paper currency, issued by the mere authority of government, and one issued by a bank, payable in coin, is this: that, in the first case, there is no standard to which an appeal can be made, as to the quantity which will only satisfy, or which will surcharge the circulation; in the last, that standard results from the demand. If more should be issued than is necessary, it will return upon the bank. Its emissions, as elsewhere intimated, must always be in a compound ratio to the fund and the demand; whence it is evident that there is a limitation in the nature of the thing; while the discretion of the Government is the only measure of the extent of the emissions by its own authority. This consideration further illustrates the danger of emissions of that sort, and the preference which is due to bank paper."

An issue of $60,500,000 of Treasury notes was authorized between June 30, 1812, and February 24, 1815, of which amount $36,680,794 was issued. A portion of these notes were of a denomination less than $100; the remainder, which were of denominations of $100 and upward, bore interest at the rate of "one cent and one-half a cent per day" on every one hundred dollars of principal, each month being reckoned as thirty days. These notes were everywhere receivable in all payments to the United States, but were depreciated from eight to ten per cent. below bank-notes, which bore no interest but were redeemable in specie.

Mr. Dallas, Secretary of the Treasury, on October 6, 1814, transmitted a report to the Committee of Ways and Means upon this subject, in which he says:

"The multiplication of State banks in the several States has so increased the quantity of paper currency that it would be difficult to calculate its amount, and still more difficult to ascertain its value. Under favorable circumstances, and to a limited extent, an emission of Treasury notes would probably afford relief; but Treasury notes are an expensive and precarious substitute either for coin or bank-notes, charged as they are with a growing interest, productive of no countervailing profit or emolument, and exposed to every breath of popular prejudice or alarm. The establishment of a national institution, operating upon credit, combined with capital, and regulated by prudence and good faith, is, after all, the only efficient remedy for the disordered condition of our circulating medium. The establishment of a national bank will not only be useful in promoting the general welfare, but it is necessary and proper for carrying into execution some of the most important powers constitutionally vested in the Government."

Mr. Gallatin, in 1831, refers to the proposed issue of Treasury notes as follows:

"The general objections to a paper issued by Government have already been stated at large, yet it must be admitted that there may be times when every other consideration must yield to the superior necessity of saving or defending the country. If there ever was a time or a cause which justified a resort to that measure, it was the war of the independence. It would be doing gross injustice to the authors of the Revolution and founders of that independence to confound them with those Governments which, from ambitious views, have, *without necessity, inflicted that calamity on their subjects.*

"The old Congress, as the name purports, were only an assembly of plenipotentiaries, delegated by the several colonies or States. They could only recommend, and had not the power to lay, taxes. The country was comparatively poor; extraordinary exertions were necessary to resist the formidable powers of Great Britain. Those exertions were made, and absorbed all the local resources; the paper money carried the United States through the most arduous and perilous stages of the war, and, though operating as a most unequal tax, it cannot be denied that it saved the country. It is to be hoped that a similar state of things will not again occur; but, at all events, *the issue of a Government paper ought to be kept in reserve for extraordinary exigencies.*"

Other financial writers of that time took substantially the same view of the subject.

Secretary Chase, in his report of 1861, discussed the proposition to substitute demand notes, payable in coin, in place of the notes of private banking corporations, and also the proposition to issue national-bank notes, secured by the pledge of United States bonds, to replace the existing bank-notes authorized by the laws of the several States. The advantages claimed for the latter plan were, a currency of uniform security and value, protection from losses in discounts and exchanges, increased facilities to the Government in obtaining loans, a diminution of the rate of interest or a participation by the people in the profits of circulation, an avoidance of the perils of a great money monopoly, and a distribution of the bonds of the nation to the leading monetary associations of the country, thus identifying their interests with those of the Government.

In December, 1862, in his annual report, he again urged his objections to the issue of United States notes. The principal objections were thus stated by him:

"(1.) The facility of excessive expansion when expenditures exceed revenue. (2.) The danger of lavish and corrupt expenditure stimulated by facility of expansion. (3.) The danger of fraud in management and supervision. (4.) The impossibility of providing it in sufficient amounts for the wants of the people whenever expenditures are reduced to equality with revenue or below it."

In discussing the fourth objection, he says:

"Whenever the country shall be restored to a healthy normal condition, and receipts exceed expenditures, the supply of United States notes will be arrested, and must progressively diminish. Whatever demand may be made for their redemption in coin must hasten this diminution, and there can be no reissue; for reissue, under the conditions, necessarily implies disbursement, and the revenue, upon the supposition, supplies more than is needed for that purpose. There is, then, no mode in which a currency in United States notes can be permanently maintained, except by loans of them when not required for disbursement, on deposits of coin or pledge of securities, or in some other way. This would convert the Treasury into a Government bank, with all its hazards and mischiefs. If these reasonings be sound, little room can remain for doubt that the evils certain to arise from such a scheme of currency, if adopted as a permanent system, greatly overbalance the temporary though not inconsiderable advantages offered by it."

STATE-BANK NOTES TAXED OUT OF EXISTENCE.

The system of State banks, with the right to issue currency, continued for two years after the organization of the national-banking system. The capital of such banks in 1863 was four hundred and five millions, and their circulation two hundred and thirty-eight millions; but in 1865 an act was passed imposing a tax of 10 per cent. upon the amount of notes of any person, or of any State bank, used for circulation and paid out by any banking association after August 1, 1866, The circulation of the State banks was thus taxed out of existence. and their capital has since been largely transferred to the national-banking system, the total capital of all the State banks and private bankers being at the present time but two hundred and twenty-five millions of dollars.

STRENGTH AND UTILITY OF THE NATIONAL BANKS.

The legislation authorizing the national-banking system was the result of a great war, and it is not probable that such a system could have been organized in time of peace. The success of the system has been greatly beyond the anticipations of its advocates, and it is generally acknowledged that it is the equal or superior of any system heretofore devised. Its merits do not consist alone in the safety of its circulating-notes. It is a free system, and is not open to the objection of other banking systems, that it is a monopoly. Its restrictions are numerous and burdensome, and its penalties severe. The profits to the stockholders for the last five years have not been so great as in the systems of State banking which preceded it, as may be seen from the following table, which shows, by geographical divisions, the ratio of

dividends to capital and surplus for the years ending September 1, from 1870 to 1877, inclusive:

Geographical divisions.	Ratio of dividends to capital and surplus.								
	1870.	1871.	1872.	1873.	1874.	1875.	1876.	1877.	Average.
New England States....	8.4	8.3	8.1	8.2	7.7	7.6	6.7	6.0	7.6
Middle States..........	8.1	7.9	7.9	7.9	7.6	7.6	7.7	6.6	7.7
Southern States.........	10.7	10.1	9.5	8.8	8.2	7.7	7.6	7.1	8.7
Western States..........	8.5	8.9	9.3	9.0	8.6	8.6	8.1	9.6	8.8
United States......	8.4	8.3	8.3	8.3	7.9	7.8	7.5	7.1	7.9

The statistics which it furnishes to the public and to Congress are more complete and accurate than any that have ever been obtained in any country under any previous system, and all efforts to obtain similar statistics of the condition of the State institutions now in existence have proved unavailing.

Section 333 of the Revised Statutes requires the Comptroller to report annually to Congress the condition of banks organized under State laws, so far as such information can be obtained from official sources; but in at least half of the States in the Union satisfactory information cannot be obtained, for the reason that the institutions mentioned are not required by State laws to make satisfactory reports to any State officer.

While the failures of State banks and savings banks have been numerous and the resulting losses enormous, it is estimated that the total losses to creditors from the nearly 2,400 national banks organized during the last fifteen years have not exceeded six millions of dollars, an amount probably not equal to the losses which have fallen upon the creditors of savings banks and State banks during the past year alone.

The national banks have accumulated a surplus fund of more than one hundred and twenty millions of dollars, under a provision of law which requires that one-tenth part of the net profits of every bank shall be semi-annually carried to its surplus fund, until the same shall amount to 20 per cent. of its capital. The total surplus of the national banks now equals more than 25 per cent. of their capital, and is a fund to which losses and bad debts are chargeable. This fund was chiefly accumulated during the prosperous period which followed the termination of the late war, but during the last two years its amount has been decreased through losses by more than eleven millions of dollars.

The gradual accumulation of the surplus fund is shown in the follow-

ing table, which exhibits its amount and yearly increase from 1863 to the present time:

Date.	No. of banks.	Amount of surplus.	Semi-annual increase.	Semi-annual decrease.
July, 1864	467	$1,129,910	....	....
Jan., 1865	638	8,663,311	$7,533,401	....
July, 1865	1294	31,303,566	22,640,255	....
Jan., 1866	1582	43,000,371	11,696,805	....
July, 1866	1634	50,151,992	7,151,621	....
Jan., 1867	1648	59,992,875	9,840,883	....
July, 1867	1636	63,232,811	3,239,936	....
Jan., 1868	1642	70,586,126	7,353,315	....
July, 1868	1640	75,840,119	5,253,993	....
Jan., 1869	1628	81,169,937	5,329,818	....
June, 1869	1619	82,218,576	1,048,639	....
Jan., 1870	1615	90,174,281	7,955,705	....
June, 1870	1612	91,689,834	1,515,553	....
Dec., 1870	1648	94,705,740	3,015,906	....
June, 1871	1723	98,322,204	3,616,464	....
Dec., 1871	1790	101,573,154	3,250,950	....
June, 1872	1853	105,181,943	3,608,789	....
Dec., 1872	1940	111,410,249	6,228,306	....
June, 1873	1968	116,847,455	5,437,206	....
Dec., 1873	1976	120,961,268	4,113,813	....
June, 1874	1983	126,239,308	5,278,040	....
Dec., 1874	2027	130,485,641	4,246,333	....
June, 1875	2076	133,169,095	2,683,454	....
Dec., 1875	2086	133,085,422	....	$83,673
June, 1876	2091	131,897,197	....	1,188,225
Dec., 1876	2082	131,390,665	....	506,532
June, 1877	2078	124,714,073	....	6,676,592
Dec., 1877	2073	121,568,455	....	3,145,618

More than nineteen millions of dollars of losses have been charged to surplus and to other earnings by the national banks during each of the last two years, as may be seen by the following tables, showing, by geographical divisions, the losses charged off by them during the years named:

1876.

Geographical divisions.	Six months ending March 1, 1876.		Six months ending September 1, 1876.		Total for 1876.
	No. of banks	Losses charged off.	No. of banks	Losses charged off.	
New England States	201	$1,485,531 51	282	$3,074,128 01	$4,559,659 52
Middle States	268	3,553,128 79	344	7,156,348 47	10,709,477 26
Southern States	67	308,861 50	90	896,890 84	1,205,752 34
Western States	252	1,000,912 52	302	1,933,506 28	2,934,418 80
Pacific States and Territories	18	152,735 50	16	156,983 00	309,718 50
Totals	806	6,501,169 82	1,034	13,217,856 60	19,719,026 42

1877.

Geographical divisions.	Six months ending March 1, 1877.		Six months ending September 1, 1877.		Total for 1877.
	No. of banks	Losses charged off.	No. of banks	Losses charged off.	
New England States......	289	$2,465,327 63	312	$4,825,040 56	$7,290,368 19
Middle States............	314	3,462,684 08	353	3,945,805 59	7,408,489 67
Southern States...........	80	478,251 64	86	511,841 49	990,093 13
Western States............	276	1,470,454 97	335	2,356,874 56	3,827,329 53
Pacific States and Territories..................	21	299,242 24	22	118,065 23	417,307 47
Totals..............	980	8,175,960 56	1,108	11,757,627 43	19,933,587 99

The ratio of earnings of the national banks to capital and surplus for the year 1876 was but 6.87 per cent., and for 1877 but 5.62.

If the present system should be discontinued, it is probable that the existing surplus fund would be distributed among the shareholders, and it is very doubtful if, under any future system, so large a surplus will ever again be accumulated for the safety of the creditors of the banks.

PROFIT ON CIRCULATION.

The only reason advanced by the advocates of the repeal of the system is that money may by saved to the Government by authorizing it to issue the circulation now furnished by the national banks. The greatest amount of national-bank notes outstanding at one time was on December 1, 1874, when it reached $352,394,346. The amount now outstanding of banks in operation is about $300,000,000, showing a reduction of more than fifty millions within the last three years. If the profit upon circulation were as great as is generally supposed, it is not to be presumed that the banks would voluntarily surrender the source from which such great profit were derived. In my report for 1875 I gave a statement showing that the annual profit to the banks from this source did not at that time exceed ten millions of dollars, and that the average annual value of circulation to the national banks of the country was not more than 2¼ per cent. upon the capital invested. I have now prepared a similar statement, showing that the profit at the present time does not much exceed that amount.

The table below exhibits the various classes and amounts of U. S bonds held by the U. S. Treasurer to secure national-bank circulation on February 15, 1878, their currency value, according to the quotations at the New York stock exchange on that date, the amount of circulation

issuable thereon, and the amount of interest derived from them, both in gold and currency value, gold being quoted on that date at 2¼ per cent. premium:

Class of bonds.	Par value.	Currency value.	Circulation issuable.	Gold interest.	Currency value of interest.
Sixes of 1881	$59,109,500	$62,803,844	$53,198,550	$3,546,570	$3,626,368
Five-twenties of 1865	6,000	6,135	5,400	360	368
Five-twenties, (new)	7,854,200	8,148,732	7,068,780	471,252	481,855
Five-twenties of 1867	7,794,600	8,252,533	7,015,140	467,676	478,199
Five-twenties of 1868	1,914,500	2,176,805	1,723,050	114,870	117,455
Ten-forties of 1864	75,185,400	79,132,634	67,666,860	3,759,270	3,843,854
Fives of 1881	124,629,500	130,237,828	112,166,550	6,231,475	6,371,683
Four and a halfs of 1891	44,144,850	45,248,471	39,730,365	1,986,518	2,031,215
Fours of 1907	17,802,000	18,002,272	16,071,800	712,080	728,102
Pacific Railroad bonds	7,803,000	9,363,600	7,022,700	....	468,180
Totals	346,243,550	363,372,854	11,619,195	17,290,071	18,147,279

If there be deducted from the amount of capital required to purchase the bonds for circulation, ($363,372,854,) the amount of premium which they bore on February 15, 1878, ($17,129,304,) as well as the ten per cent. margin for which no circulation is issued, ($34,624,355,) the available means of the banks derived from circulation will be reduced from $363,372,854 to $311,619,195.

The annual interest on the bonds in which the amount of capital named ($363,372,854) is invested amounts to $17,290,071 in gold and $468,180 in currency, the total currency value of the interest on February 15, 1878, gold being quoted at the New York Stock Exchange at 2¼ per cent. premium, being $18,147,279; but as the banks are required to pay annually into the Treasury of the United States one per cent. upon their circulation, or $3,116,192 as a tax thereon, there is left $15,031,087 in currency, as the net amount of interest received by them annually on their bonds.

Upon receiving circulation the banks are required by the act of June 20, 1874, to place an amount equal to five per cent. thereof, or $15,580,960, with the Treasurer of the United States as a redemption fund, leaving, of the $311,619,195 of circulation issuable upon their bonds, $296,038,235 available for use—which amount, if loaned at 8 per cent. per annum, (estimated as the average rate of interest throughout the country,) will produce an income of $23,683,059; and this income added to the net interest received on their bonds ($15,031,087) gives $38,714,146 as the whole income derived by the national banks from their circulation and from the bonds deposited to secure it.

If the capital necessary to purchase the bonds ($363,372,854) were

loaned at 8 per cent. annual interest, the annual income thereon would be $29,069,828, and the difference between this sum and the whole income of the banks from their bonds and circulation, ($38,714,146,) which is $9,644,317, or $2\frac{65}{100}$ per cent. on the capital invested, represents the profits that the banks would receive over and above what could be obtained from the loan of the same amount of capital at the rate of interest named, provided that the whole amount of circulation received by the banks upon their bonds, less the redemption fund, could be kept loaned out by them continually throughout the year.

This is concisely shown as follows:

Interest on $296,038,235 of circulation loaned at 8 per cent. per annum	$23, 683, 059
Currency value of interest on bonds	18, 147, 279
Total	41, 830, 338
Less tax on circulation	3, 116, 192
Total income from capital employed	38, 714, 146
The same capital loaned directly at 8 per cent. per annum would earn	29, 069, 828
Difference, representing profit on circulation when the whole amount issued is loaned continually throughout the year	9, 644, 318

Two and sixty-five hundredths per cent. on the capital employed ($363,372,854) is $9,629,381, which, as shown above, is about the value of circulation to the national banks if they could keep the whole amount of their issues loaned out all the time.

In the above calculation no deduction is made for the costs of the redemption of the bank circulation, which lessens by so much the profits on circulation. The cost of redemption for the fiscal year ending June 30, 1877, was $357,066 10; for the year ending June 30, 1876, $365,193 31; and for the year ending June 30, 1875, $290,965 37.

In localities where the annual rate of interest is 7 per cent., the value of circulation is about three per cent. per annum, and where the rate is 10 per cent., the profit is about two per cent.

The large margin ($51,753,659) between the value of the bonds owned by the banks and the circulation issuable thereon, would, in case of disaster, be available as a reserve for the payment of the depositors or other creditors; and this is an additional argument in favor of issuing circulation under the restrictions of the law as now provided.

Another point that should be considered in estimating the value of circulation is, that the banks held their bonds at a premium, which

though it has been greatly reduced in the past, still appears among their assets for a large amount, and which will disappear when the bonds shall be made payable in a medium which does not itself bear a premium. The amount of premium appearing as an asset of the banks on December 28, 1877, the date of the last report of their condition, was $8,834,639.

If all of the bonds of the banks necessary to secure their circulation were converted into four per cent. bonds, the value of circulation, taking the same amounts of bonds and circulation as are used above would be shown as follows:

Interest on $296,038,235 of circulation, loaned at 8 per cent. per annum	$23, 683, 058
Currency value of interest on bonds	14, 161, 361
Total	37, 844, 419
Less tax on circulation	3, 116, 192
Total profit on capital employed	34, 728, 227
The same capital loaned directly at 8 per cent. per annum would earn	28, 011, 103
Difference, representing profit on circulation when the whole issue is kept loaned out	6, 717, 124

which is $1\frac{9}{10}$ per cent. on the capital employed.

If the rate of interest were 7 per cent., the profit on circulation would be $2\frac{7}{100}$ per cent.; and if the rate were 10 per cent., the profit would be $1\frac{61}{100}$ per cent.

Another important consideration is, that the average rate of State taxation, during the year 1876, was two per cent. upon the capital of the national banks; and if they should go into liquidation, and the owners of the bonds should continue to hold them, the amount of State taxation saved to them would nearly or quite equal the benefit they now derive from circulation.

EFFECT OF THE PASSAGE OF THE BILL.

The pending bill proposes to abolish the system of national banks after a successful trial of fifteen years, and to give to Congress the right to issue the paper money of the country—such money not to be a full legal-tender nor a promise to pay, but a species of irredeemable currency not before issued since the organization of the Government. It will have the effect to keep the subject of the currency continually before the people, and propositions for the enlargement or diminution of its volume will be likely to be introduced in each successive Congress. The only way in which such a currency could be issued with

any degree of safety would be by a limitation of its amount. That limitation can be secured only by an amendment to the Constitution of the United States, through the affirmative action of the legislatures of three-fourths of the States of the Union; and while so great a diversity of opinion upon this subject exists as at present, it is not at all probable that a sufficient number of the States could be brought to agree upon any amount which might be proposed as a limit.

The effect of the repeal of the present system would probably be the re-establishment of the old State systems in operation previous to the organization of the national banks. The New England, Middle, and Southern States now possess more than three-fourths of the entire capital and circulation of the national banks. It is believed that, if the question were squarely presented, the vote of the representatives in Congress from the Eastern and Middle States would be found to be almost unanimously opposed to the issue by the Government, exclusively, of the paper currency of the country; and, while the representatives of the Southern States do not generally favor the national system, neither are they in favor of an exclusive issue of United States notes. They prefer a system of State banks; and it is probable that, were the national system abolished, a large portion of the representatives of the New England, Middle, and Southern States would favor a return to State banks, rather than an exclusive issue of Treasury notes. The Eastern and Middle States have been habituated from the foundation of the Government to State-bank issues, and have suffered comparatively little from such circulation. The national-banking system is not popular with the South, for the reason that they have not at present the capital with which to procure the necessary United States bonds, and also because the rates of interest are so high in those States that there is no profit upon national-bank issues. The Eastern and Middle States, as matters now stand, prefer the present system, and it is altogether probable that the passage of such a bill as is now pending in this Committee, which in effect abolishes the national-banking system, would be soon followed by a repeal of section 3412 of the Revised Statutes, which imposes a tax of ten per cent. upon issues of State bank notes.

ASSISTANCE OF NATIONAL BANKS IN FUNDING THE DEBT.

The New York free-banking act, which was the first act passed by any State authorizing the issue of circulating-notes based upon bond deposited as security therefor, furnished a market for the bonds of tha State, and thereby increased their value. The national banks are th

owners of $385,000,000 of United States bonds, while the circulation issued to them is not much in excess of $300,000,000; and one of the chief objects in the organization of the system was to supply a steady market for, and facilitate the negotiation of, United States bonds, and to increase the value of such bonds beyond other funds of equal credit but not available for banking purposes. There is no doubt that these expectations have been more than fulfilled, and that the credit of the United States, and its ability to borrow money at low rates, have been greatly increased by making its bonds a basis for currency.

Nearly one-fourth of the 4 per cent. loan recently negotiated by the Government was subscribed for and is now held by the national banks; and, from the date of their organization, their assistance in the funding and the negotiation of the bonds of the Government has been fully recognized. In October, 1865, nearly three-fourths of the whole amount of bonds deposited by the national banks as security for circulation bore interest at the rate of 6 per cent. Now, less than one-fourth of the bonds so deposited are of the 6 per cent. class, while more than $60,000,000 of them are of the 4 and 4½ per cent.; and there is but little doubt that, in the process of funding, the whole national-bank circulation will soon be based upon bonds bearing a rate of interest not exceeding 4 per cent., giving to the banks a profit, under present laws, of only about $6,000,000 annually upon their circulation. It cannot be doubted that, under any system of State institutions that may be hereafter authorized, the losses to the people from exchange would be much greater annually than the amount of interest paid by the Government to the banks.

The profits of a well-conducted bank are not derived mainly from circulation, but from the use of deposits; and national banks are not at the present time organized so much on account of the profits upon circulation, as for the reason that these institutions have established a character which is of great value to them in the accumulation of deposits.

When the public debt shall be consolidated into a security bearing a low rate of interest, always salable on the market at a nearly uniform price, it will furnish a fund on which the surplus deposits of the banks can at all times be placed, thus obviating the necessity for holding the large proportion of cash reserves which are now maintained by the banks. When that time shall arrive, the bank circulation of the country may be safely based exclusively upon a bond bearing a rate of interest not exceeding three per cent., so that the income derived by the banks from the Government will be reduced to a comparatively insignificant amount.

NO SAVING TO THE GOVERNMENT BY THE PASSAGE OF THE BILL.

Upon the repeal of the ten per cent. tax upon the circulation of State banks, the several Eastern and Middle, and many of the Western States, would probably authorize the issue of currency based on United States, or State bonds, similar to the New York State system of a few years ago. The result would, therefore, be the disestablishment of our homogeneous system, which has been tried for a number of years and found to be excellent in most of its characteristics, and the substitution therefor of many other differing systems.

The chief objection urged to the national-banking system is that it is an expensive one to the Government; but even this objection would not be removed by its repeal, for banks organized under State laws would still deposit bonds of the United States or of the States, and receive interest upon them as well as upon the circulation to be issued thereon; so that, after having destroyed the present system and deranged the banking business of the country, it would be found that legislation had been travelling around a circle, and, in effect, re-established State institutions liable to the same objections which now exist against the national-banking system, but without many of the wholesome restrictions which now pertain to the latter.

The experience of the last fifteen years has shown that the present is a safe and good system of banking. It should not, therefore, be repealed; but, if possible, it should be so improved as to become and continue still more serviceable, both to the people and the Government, than it now is.

The system is yet in its infancy, yet it cannot be denied that it is vastly superior to any previously tried, and that it may be so moulded as to become the best that it is possible to devise. If now superseded by the re-establishment of the old State-banking systems, it is not at all probable that it can ever hereafter, through Congressional action, be restored.

CONCLUSIONS.

The foregoing views may be summarized as follows:

1. It may be doubted if Congress has the power to issue Treasury notes which shall be a legal-tender for all claims and demands against the United States, or to take from the national banks the vested rights which they have acquired under section 5136 of the Revised Statutes.

2. The experience of the country, and the judgment and opinions of Hamilton, Dallas, Gallatin and Chase, were against the exclusive issue of Treasury notes.

3. The profits which the national banks derive from the right of circulation are much less than is generally supposed.

4. The passage of the bill will be followed by the repeal of section 3412 of the Revised Statutes, which imposes a tax on State-bank circulation, and by the re-establishment of State banks.

5. The result will not be a saving to the Government, but will occasion greatly-increased expense and loss to the people, and further derangement of the business of the country.

APPENDIX.

The following is the bill of the Committee:

SUBSTITUTE FOR A BILL TO RETIRE THE CIRCULATING-NOTES OF THE NATIONAL BANKS, AND FOR OTHER PURPOSES.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That as soon as may be practicable, after the passage of this act, the Secretary of the Treasury shall cause to be prepared an issue of Treasury notes equal in amount to the circulation of the national banking associations on the —— day of ———, anno Domini eighteen hundred and seventy-eight; which shall be used in the redemption and retirement, in the way hereinafter provided, of the circulating-notes of the national banks; which Treasury notes shall be in the following form:

"WASHINGTON, D. C., ———.

"The United States of America are indebted to the bearer in the sum of ——— dollars;" and shall be signed by the Treasurer of the United States, and countersigned by the Register of the Treasury, or their signatures be thereto engraved; and shall contain such devices and superscriptions as the Secretary of the Treasury shall direct; and the denominations of such notes and the general similitude thereof shall conform, as nearly as may be, to those of the United States notes commonly known as legal-tender notes. They shall be receivable in payment of all taxes, customs, excises, debts, and demands of every kind due to the United States, and of all claims and demands against the United States, except for obligations made payable in coin or lawful money by existing laws; and shall be received by the Secretary of the Treasury at par for the four per centum bonds of the United States authorized to be issued by the act entitled "An act to authorize the refunding of the national debt," approved July fourteenth, eighteen hundred and seventy.

SEC. 2. Immediately after the Treasury notes provided for in the preceding section shall be ready for circulation, the Secretary of the Treasury shall cause them to be forwarded to the assistant treasurers of the United States at New York, Boston, Philadelphia, Baltimore, Cincinnati, Chicago, Saint Louis, and New Orleans, in amounts proportioned to the receipts and disbursements of their several offices, with regulations and instructions to the following tenor, to wit:

First. That the said assistant treasurers shall, immediately after the receipt of such Treasury notes, cease to pay, in disbursement of the public funds, upon any account whatever, the circulating-notes of the national banks then in their several offices, or thereafter received into them, but shall pay out, in the place and stead of such national-bank notes, and in substitution therefor, the Treasury notes herein authorized, until the whole circulating-notes of the national banks shall have been retired. And the assistant treasurers may at any time issue such Treasury notes in exchange for bank-notes upon the application of any person or bank.

Second. That the assistant treasurers shall, every thirty days after the process of retiring the national-bank notes shall have been begun as above directed, or oftener, if the Secretary of the Treasury shall so require, transmit to the Treasurer of the United States, at Washington, all the national-bank notes received by them up to the date of such transmission: which said notes shall be received by the Treasurer in liquidation of the charges against the several assistant treasurers on account of Treasury notes as herein provided.

SEC. 3. It shall be the duty of the Treasurer, as rapidly as the notes of the national banks are received into his office from the assistant treasurers, to cause them to be counted and assorted, and the notes of each association carefully ascertained; and whenever those of any association shall be ascertained to the amount of five thousand dollars, or any multiple of five thousand dollars, such association shall be notified thereof, and shall be entitled to receive, upon demand and payment of a like sum in legal-tender notes, or the Treasury notes authorized by this act, or in drafts or certificates of deposit of the assistant treasurers, or of such national banks as may be designated by the Secretary of the Treasury for that purpose, its bonds on deposit with the Treasurer for security of circulation to the amount of its notes so ascertained and notified, and to that extent shall be discharged from tax on its circulation. And if any national bank shall fail or neglect, for a period of sixty days after the notification above directed, to make payment in redemption of its bonds in accordance therewith, then to that extent interest on its bonds, bearing interest at the highest rate, shall cease and be forfeited to the United States during the whole period such failure or neglect shall continue; and any banking association desiring so to do may withdraw all its bonds on payment into the Treasury of legal-tender notes or the notes authorized by this act to the amount of its circulating notes outstanding at the date of such payment.

SEC. 4. The Secretary of the Treasury is hereby required from time to time, as payments are made by the national banks on the withdrawal of their bonds, or as Treasury notes may be received in exchange for four per centum bonds, as authorized in the first section of this act, to expend the sum of such receipts either in Treasury notes or legal-tender notes, as may be most expedient, in purchase of the six per centum bonds of the United States, redeemable at the pleasure of the Government, or in the purchase of gold or silver coin with which to redeem and pay such bonds.

SEC. 5. Any national bank desiring to exchange its six per centum bonds for the Treasury notes authorized by this act, upon application to the Treasurer of the United States, and upon payment into the Treasury in accordance with such regulations as the Secretary shall establish, of legal-tender notes or Treasury notes equal to its outstanding circulation at the date of such application, shall be entitled to receive Treasury notes to the full market value of its six per centum bonds on deposit with the Treasurer for security of circulation at the time, and in addition thereto the amount of its accrued interest and premium at the market rate.

SEC. 6. And in the contingency of there being a deficiency of coin in the Treasury at any time to meet the coin interest on any bonds of the United States, the Secretary of the Treasury is authorized to dispose of bonds of either of the classes authorized by the said act of July fourteenth, eighteen hundred and seventy, at not less than par, either at home or abroad, in order to pay the said interest.

SEC. 7. All banking associations organized under existing laws, with power to issue circulating-notes, redeemable in gold coin, shall make a monthly deposit in the Treasury of the United States, in gold coin or their own circulating-notes, equal to five per centum of their circulation outstanding at the date of the passage of this act; and when an amount equal to the outstanding circulation of such gold banks shall have been deposited with the Treasurer in gold coin, or in their own circulating-notes, the bonds of the United States held by the Treasurer to secure the circulating-notes of said gold banks shall be reassigned and delivered to said banks; and thereafter the circulating-notes of said banks shall be redeemed at the Treasury of the United States.

SEC. 8. No circulating-notes shall be issued to any national banking association after the passage of this act; but nothing herein contained shall be construed either to authorize or allow any contraction of the currency by reason of its operation; and should any national bank, after its passage, retire its circulation in pursuance of existing law, the Secretary of the Treasury is hereby directed to issue, in the purchase of six per centum bonds of the United States, the Treasury notes authorized by this act, to the full amount of the circulation retired by such association. And all the national-bank notes redeemed under the several provisions of this act shall be canceled and destroyed, under such rules and regulations as the Secretary of the Treasury shall prescribe; and in the monthly statement of the condition of the public debt made by the Secretary, he shall include an exhibit of the amount of the Treasury notes herein provided for outstanding at the date of such statement, together with the amount of national-bank notes which up to the same date have been redeemed and destroyed.

SEC. 9. The third section of the act entitled "An act for fixing the amount of United States notes, providing for a redistribution of national-bank currency, and for other purposes," approved June twentieth, eighteen hundred and seventy-four, requiring the national banks to keep on deposit with the Treasurer of the United States at Washington lawful money equal to five per centum of their circulation, to be held and used for the redemption of such circulation, is hereby repealed.

SEC. 10. All acts and parts of acts inconsistent with the provisions of this act are hereby repealed.